



PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH

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BARKLEY LAKE WATER DISTRICT
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
AND
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS
FOR THE YEAR ENDED DECEMBER 31, 2011

THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

Members:

American Institute of
Certified Public Accountants

Kentucky Society of
Certified Public Accountants

Tennessee Society of
Certified Public Accountants

ACCOUNTANT'S COMPILATION REPORT

To the Members of the Board
Barkley Lake Water District

We have compiled the accompanying financial statements of Barkley Lake Water District, as of and for the year ended December 31, 2011, which comprise the District's basic financial statements as listed in the table of contents. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

The management of Barkley Lake Water District, is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist the management of Barkley Lake Water District, in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

The management's discussion and analysis on pages 2 through 5, is presented for purposes of additional analysis. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who consider it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. We have not audited or reviewed the supplementary information and accordingly, we do not express an opinion or provide any assurance on such supplementary information.

Thurman Campbell Group, PLC

February 1, 2012

BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2011

The Barkley Lake Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2011. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

The District's 2011 operating revenues of \$2,403,373 increased 3% over the 2010 amount, while operating expenses for 2011 of \$2,116,751 increased 4% over 2010. Non-operating income for 2011 consisting of interest income, was \$49,829, a 77% increase from 2010. The primary reason for this increase was the amount of grant income received in 2011, as opposed to the 2010 grant income of \$1,419,146. These factors resulted in a 2011 increase in net assets of \$1,425,282.

The District's net assets, a measure of current financial resources, increased by \$1,425,282 resulting in a December 31, 2011 balance of \$7,606,135. The December 31, 2010 balance was \$6,180,853.

*The District's unrestricted cash available for operating expenses was \$666,003 at December 31, 2011.

The District's investment in utility plant was \$15,101,367 net of depreciation at December 31, 2011.

OVERVIEW OF FINANCIAL STATEMENTS

Barkley Lake Water District is a self-reporting proprietary fund. The District's basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows and notes to the financial statements. The District does not include financial information of any other entity, nor is it included in the financial information of any other entity.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Statement of net assets. The statement of net assets presents the financial position of the District. It presents information on the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Statement of revenues, expenses and changes in net assets. The statement of revenues, expenses and changes in net assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Statement of cash flows. The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 9 - 17 of this report.

BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2011

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$7,606,135 at December 31, 2011.

A portion of the District's net assets (\$3,886,367) reflects its investment in net plant, such as water tanks, buildings, equipment, and distribution systems, less depreciation and any related outstanding debt used to acquire those assets. The district uses these assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities.

The District's restricted net assets totaled \$3,353,273 at December 31, 2011 and consisted of cash restricted for debt service.

Unrestricted net assets totaled \$366,495 at December 31, 2011.

The District's operating income for the year was \$286,622, which included depreciation and amortization of \$472,687. Interest revenue was \$49,829, interest expense was \$330,315, and grant receipts was \$1,419,146 for a change in net assets for the year of \$1,425,282.

The District's overall financial position and operations for the past two years is summarized as follows:

	<u>2011</u>	<u>2010</u>
Current assets	\$ 3,682,816	\$ 2,258,120
Capital assets	15,101,367	10,760,007
Noncurrent and other assets	980,073	993,704
Total assets	<u>19,764,256</u>	<u>14,011,831</u>
Long-term liabilities	11,325,085	7,502,431
Other liabilities	833,036	328,547
Total Liabilities	<u>12,158,121</u>	<u>7,830,978</u>
Net assets:		
Invested in capital assets, net of related debt	3,886,367	3,386,009
Restricted	3,353,273	2,086,834
Unrestricted (Deficit)	366,495	708,010
Total net assets	<u>\$ 7,606,135</u>	<u>\$ 6,180,853</u>
Revenues:		
Operating revenues	\$ 2,403,373	\$ 2,327,875
Non-operating income	49,829	28,193
Capital contributions	1,419,146	-
Total revenues	<u>3,872,348</u>	<u>2,356,068</u>
Expenses:		
Operating expenses	2,116,751	2,043,814
Non-operating expenses	330,315	250,837
Total expenses	<u>2,447,066</u>	<u>2,294,651</u>
Change in net assets	1,425,282	61,417
Net assets, beginning	<u>6,180,853</u>	<u>6,119,436</u>
Net assets, ending	<u>\$ 7,606,135</u>	<u>\$ 6,180,853</u>

BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2011

CAPITAL ASSETS

The District's activity investment in capital assets as of December 31, 2011 was as follows:

	<u>Balance</u> <u>January 1, 2011</u>	<u>Additions</u> <u>(Deletions)</u>	<u>Balance</u> <u>December 31, 2011</u>
Nondepreciable assets:			
Land	\$ 110,072	\$ -	\$ 110,072
Construction in progress	2,073,721	3,321,361	5,395,082
Total Nondepreciable Assets	2,183,793	3,321,361	5,505,154
Depreciable assets			
Buildings	3,901,572	-	3,901,572
Pumping equipment	23,034	-	23,034
Transmission lines	9,718,331	1,384,982	11,103,313
Meters	1,489,935	42,233	1,532,168
Plant equipment	435,893	-	435,893
Office equipment	91,122	8,217	99,339
Vehicles	244,466	43,623	288,089
Total depreciable assets *	15,904,353	1,479,055	17,383,408
Total capital assets	\$ 18,088,146	\$ 4,800,416	\$ 22,888,562

During the year ended December 31, 2011, the district acquired additional assets of \$1,479,054. Depreciation expense was \$459,056 for 2011. The District had an increase in construction in progress of water system improvements of \$3,321,361. Other asset additions included meters, plant equipment and office equipment.

LONG TERM DEBT

Debt activity for the year ended December 31, 2011, was as follows:

	<u>Balance</u> <u>January 1, 2010</u>	<u>Additions</u> <u>(Payments)</u>	<u>Balance</u> <u>December 31, 2010</u>	<u>Current</u> <u>Maturities</u>
Bond Series 1976	\$ 99,000	\$ (17,000)	\$ 82,000	\$ 19,000
Bond Series 1993	1,412,000	(34,000)	1,378,000	36,000
Bond Series 2005	1,131,000	(15,000)	1,116,000	15,500
Bond Series 2008C	2,895,000	(95,000)	2,800,000	100,000
Bond Series 2010	1,837,000	-	1,837,000	23,000
Bond Anticipation Note	-	4,002,000	4,002,000	-
Total	\$ 7,374,000	\$ 3,841,000	\$ 11,215,000	\$ 193,500

Interest expense of \$330,315 was paid during the year ended December 31, 2011.

BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2011

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Barkley Lake Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Terry McNichols, Chairman, Barkley Lake Water District, P. O. Box 308, Cadiz, Kentucky 42211.

BARKLEY LAKE WATER DISTRICT
STATEMENT OF NET ASSETS – PROPRIETARY FUND
December 31, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$	666,003
Accounts receivable		308,675
Other receivables		6,267
Inventory		136,616
Prepaid expenses		26,808
Restricted cash		2,538,447
Total current assets		3,682,816

Noncurrent assets:

Restricted cash		814,826
		<u>814,826</u>

Capital assets:

Utility plant (net of related depreciation)		9,706,285
Construction in progress		5,395,082
Total capital assets		15,101,367

Other assets:

Utility deposit		525
Deferred loss of current debt refunding		19,596
Bond issue costs		145,126
Total other assets		165,247

Total noncurrent assets

		16,081,440
		<u>16,081,440</u>

Total assets

		19,764,256
		<u>19,764,256</u>

LIABILITIES

Current liabilities:

Current maturities of long-term debt		193,500
Accounts payable trade		42,964
Construction payables		476,948
Payroll liabilities		31,495

Accrued expenses:

Taxes		5,855
Interest		82,274
		<u>87,129</u>

Total current liabilities

		833,036
		<u>833,036</u>

Noncurrent liabilities:

Compensated absence		18,461
Tenant deposits		285,124
Bonds payable		11,021,500
Total noncurrent liabilities		11,325,085

Total liabilities

		12,158,121
		<u>12,158,121</u>

NET ASSETS

Invested in capital assets, net of related debt		3,886,367
Restricted net assets		3,353,273
Unrestricted		366,495
Total net assets	\$	7,606,135

BARKLEY LAKE WATER DISTRICT
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – PROPRIETARY FUND
 Year Ended December 31, 2011

OPERATING REVENUES	
Charges for services	\$ 2,384,914
Miscellaneous revenue	18,459
Total operating revenues	2,403,373
OPERATING EXPENSES	
Operating expenses	1,594,907
Taxes	49,157
Depreciation and amortization	472,687
Total operating expenses	2,116,751
Operating income (loss)	286,622
NONOPERATING REVENUES	
Interest revenue	49,829
Total nonoperating revenues	49,829
NONOPERATING EXPENSES	
Interest expense	330,315
CAPITAL CONTRIBUTIONS	
Grant receipts	1,419,146
Total contributed capital	1,419,146
Change in net assets	1,425,282
Net assets, beginning of year	6,180,853
Net assets, end of year	\$ 7,606,135

BARKLEY LAKE WATER DISTRICT
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year Ended December 31, 2011

Cash flows from operating activities:	
Received from customers	\$ 2,436,401
Paid to suppliers for goods and services	(723,801)
Paid to employees	(939,182)
Net cash provided (used) by operating activities	<u>773,418</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of property, plant and equipment	(4,323,469)
Proceed from capital grants	1,419,146
Principal paid on long-term debt	(161,000)
Proceeds from issuance of long-term debt	4,002,000
Interest paid on debt	(330,315)
Net cash provided (used) by capital and related financing activities	<u>606,362</u>
Cash flows from investing activities:	
Interest income	49,829
Net cash provided (used) by investing activities	<u>49,829</u>
Net increase (decrease) in cash	1,429,609
Cash and cash equivalents, beginning of year	<u>2,589,667</u>
Cash and cash equivalents, end of year	<u>\$ 4,019,276</u>
Cash flows from operating activities:	
Operating income (loss)	\$ 286,622
Adjustments - operating activities:	
Depreciation and amortization	472,687
(Increase) decrease in:	
Accounts receivable	24,084
Other receivable	(1,525)
Inventory	(17,044)
Prepaid insurance	(602)
Increase (decrease) in:	
Accounts payable	6,342
Payroll liabilities	(7,587)
Accrued interest	(3,713)
Compensated absence	3,685
10	10,469
Net cash provided (used) by operating activities	<u>\$ 773,418</u>

BARKLEY LAKE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activity - The Barkley Lake Water District is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Cadiz, Kentucky and primarily serves the Trigg County, Kentucky area.

Principles determining scope of reporting entity - The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executive, a publicly elected official, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Basis of accounting - The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District follows all pronouncements of the Government Accounting Standards Board, and has elected to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989 which do not conflict with GASB pronouncements.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Accounts receivable - The direct write-off method was used for recording uncollectible accounts. No allowance for uncollectible accounts was deemed to be needed. The District grants credit to customers, substantially all of whom are residents of Trigg County. The balance of accounts receivable at December 31, 2011 was \$308,675.

Materials and supplies - Inventories consist of materials and supplies and are stated at cost which is determined by the first-in, first-out method. Inventory at December 31, 2011 totaled \$136,616.

Utility plant - The utility plant is carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense.

BARKLEY LAKE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets are depreciated over the following useful lives:

Buildings	10 to 50 years	Pumping Equipment	5 to 10 years
Transmission Lines	5 to 50 years	Meters	5 to 10 years
Plant Equipment	5 to 10 years	Office Equipment	5 to 10 years
Vehicles	5 years		

Intangible assets - Financing and bond issue costs are being amortized over the life of the debt on the straight-line basis. Bond issue costs at December 31, 2011 totaled \$145,126.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimated revenues from unbilled receivables at year-end are reflected in these financial statements.

Taxes on income - The Barkley Lake Water District is exempt from paying income taxes under Section 115 of the Internal Revenue Code.

Cash and cash equivalents - For purposes of the statements of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Unrestricted and restricted cash are reflected in total cash and cash equivalents.

Revenue Recognition - Operating revenues are recognized in the period that water is supplied to participants and others. All other revenues are reflected in non-operating income when earned.

Use of Restricted/Unrestricted Net Assets - When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the District's policy is to apply restricted assets first.

2 BANK ACCOUNTS

Unrestricted Cash - Current revenues are deposited daily in the Revenue Fund, which earns interest at the passbook rate. Disbursements from this fund are made into the following funds as required by the bond covenants and are more fully described in subsequent paragraphs and notes:

- (1) Operation and Maintenance Fund
- (2) Bond Sinking Fund and Reserve
- (3) Depreciation Fund

On or before the twentieth day of each month, there is to be withdrawn from the Revenue Fund and deposited to the Operation and Maintenance Fund, an amount sufficient to pay the current expenses of operating and maintaining the plant pursuant to the annual budget. This fund is reported on the balance sheet as cash for general use.

Restricted Cash - Customers deposits are maintained in a separate account as described in Note 3.

Separate and special bank accounts were established by the Water Revenue Bond Series dated May 1, 1969 and the Bond Series of 1976, 1993, 2005, 2008, and 2010. The bond covenants require additional sums to be deposited in the Bond Sinking Fund and Depreciation Fund as described in Note 4 and 5.

BARKLEY LAKE WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2011

2 BANK ACCOUNTS (continued)

Construction accounts related to current expansion have been established to account for project funding as described in Note 6.

3 CUSTOMERS' DEPOSIT FUND

A separate fund has been established by the District and is to be maintained as long as a liability exists to customers for meter deposits held by the District.

At December 31, 2011, the composition of the customer deposit fund is as follows:

Cash in bank – checking	\$ 56,322
Certificate of deposit	306,055
Total customers' deposit	<u>\$ 362,377</u>

At December 31, 2011, the District's liability for customers' deposit was:

Meter deposits	\$ 282,795
Due to customer on final bill	(1,834)
Interest payable	4,163
Total customers' deposit liability	<u>\$ 285,124</u>

4 BOND SINKING FUND AND SINKING FUND RESERVE

The bond ordinance of 1969 established this fund solely for the purpose of paying the principal and interest on all bonds. The ordinance requires that the amount deposited equals one-sixth of the next succeeding interest installment, one-twelfth of the principal of all bonds maturing on the next November 1st, and 75% of all sums remaining in the Revenue Fund after making transfers for interest, principal, and operation and maintenance requirements to a maximum of \$325,101. Parity Bonds issued in Bond Series 1976, Bond Series 1993, and Bond Series 1999 are likewise governed by this provision.

The composition of the Bond Sinking and Reserve Funds is as follows:

	December 31, 2011
Cash in bank-sinking fund	\$ 90,917
Cash in bank-system refunding	49,127
Cash in bank - sinking fund	105,618
Cash in bank - Regions refunding	57,984
Certificate of deposit-Sinking fund	240,536
	<u>\$ 544,182</u>

5 DEPRECIATION FUND

This fund was established by the bond ordinance of 1969. The ordinance requires Barkley Lake Water District to make monthly contributions to this fund after observing the priority of deposits into the Water System Bond and Interest Sinking Fund (Bond Sinking Fund and Reserve). The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. Under the bond ordinance, \$200,000 is required to be on deposit before monthly deposits may be discontinued.

BARKLEY LAKE WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2011

5 DEPRECIATION FUND (continued)

The bond ordinance of 1976 requires monthly deposits to be made until the balance is \$326,400. The Water System Revenue Bonds, Series 1993 requires deposits of \$965 per month in addition to the requirements of prior bond resolutions. The maximum required level of funding all bond resolutions is \$533,800. The Water System Revenue Bonds, Series 1999 requires the maintaining of a Depreciation Fund but did not modify the method or level of funding. As of December 31, 2011, the depreciation cash and certificates of deposit totaled \$1,141,008.

6 CONSTRUCTION FUNDS

Expansion projects currently in construction are funded through the construction accounts as detailed below. Initial funding was obtained through the 2008 bond issue.

Cash in bank - Bank of Cadiz	\$	3,940
Cash in bank - Regions construction		1,231,231
Cash in bank - Regions construction		<u>70,535</u>
Total		<u><u>\$ 1,305,706</u></u>

7 DEPOSITS AND INVESTMENTS

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective January 1, 2006. GASB 40 is designed to inform financial statement users about deposit and investment risks that could effect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the District, includes disclosure of the following:

- Common deposit risks related to credit risk; and
- Deposit policies related to those risks.

Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments, or collateral from the bank in the event of bank failure.

The bond covenant requires all deposits to be insured by the Federal Deposit Insurance Corporation or secured by the pledge of direct obligations of the United States Government.

As of December 31, 2011, the carrying amount of the District's deposits was \$4,019,026 and the bank balance was \$4,034,980. As of December 31, 2011, the District's deposits were categorized as follows:

Insured by FDIC coverage	\$	750,000
Collateralized by Tennessee Government Pool		1,215,369
Uninsured and collateralized with securities held by the pledging financial institution in the district's name		<u>2,069,611</u>
Total		<u><u>\$ 4,034,980</u></u>

The district's investments are comprised of Customer Deposits.

BARKLEY LAKE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

8 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011:

	Balance January 1, 2011	Additions	Eliminations	Balance December 31, 2011
Depreciable assets:				
Buildings-Water Plant	\$ 3,896,829	\$ -	\$ -	\$ 3,896,829
Buildings-General Plant	4,743	-	-	4,743
Pumping equipment	23,034	-	-	23,034
Transmission lines	9,718,331	1,384,982	-	11,103,313
Meters	1,489,935	42,233	-	1,532,168
Plant equipment	435,893	-	-	435,893
Office equipment	91,122	8,217	-	99,339
Vehicles	244,466	43,623	-	288,089
Total depreciable assets	15,904,353	1,479,055	-	17,383,408
Accumulated depreciation:				
Buildings-Water Plant	2,337,255	86,537	-	2,423,792
Buildings-General Plant	26	317	-	343
Pumping equipment	23,034	-	-	23,034
Transmission lines	3,323,267	249,197	-	3,572,464
Meters	1,079,024	79,717	-	1,158,741
Plant equipment	294,766	18,358	-	313,124
Office equipment	88,286	1,864	-	90,150
Vehicles	182,481	23,066	-	205,547
Total accumulated depreciation	7,328,139	459,056	-	7,787,195
Total depreciable assets	8,576,214	1,019,999	-	9,596,213
Non-depreciable assets:				
Land	110,072	-	-	110,072
Construction in progress	2,073,721	3,321,361	-	5,395,082
Total non-depreciable assets	2,183,793	3,321,361	-	5,505,154
Total capital assets	\$ 10,760,007	\$ 4,341,360	\$ -	\$ 15,101,367

Depreciation charged to income was \$459,056 at December 31, 2011.

BARKLEY LAKE WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2011

9 LONG-TERM DEBT

Long-term bond issues consist of the following:

	<u>January 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2011</u>	<u>Amount Due</u>
Compensated Absence	\$ 14,776	\$ 3,685	\$ -	\$ 18,461	\$ -
Revenue Bonds 1976	99,000	-	17,000	82,000	19,000
Revenue Bonds 1993	1,412,000	-	34,000	1,378,000	36,000
Revenue Bonds 2005	1,131,000	-	15,000	1,116,000	15,500
Revenue Bonds 2008C	2,895,000	-	95,000	2,800,000	100,000
Revenue Bonds 2010	1,837,000	-	-	1,837,000	23,000
Bond Anticipation Note	-	4,002,000	-	4,002,000	-
	<u>\$ 7,388,776</u>	<u>\$ 4,005,685</u>	<u>\$ 161,000</u>	<u>\$ 11,233,461</u>	<u>\$ 193,500</u>

Maturities of long-term bonds are as follows:

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 193,500	\$ 286,325	\$ 479,825
2013	196,500	279,195	475,695
2014	208,000	271,750	479,750
2015	217,500	263,702	481,202
2016	199,000	255,241	454,241
2017-2021	1,140,500	1,147,237	2,287,737
2022-2026	1,415,000	888,409	2,303,409
2027-2031	1,202,500	604,865	1,807,365
2032-2036	1,011,000	366,607	1,377,607
2037 and beyond	1,429,500	311,905	1,741,405
	<u>\$ 7,213,000</u>	<u>\$ 4,675,236</u>	<u>\$ 11,888,236</u>

By a resolution of the Commission, adopted on July 8, 1976, the District authorized and thereafter issued its \$364,000 Water System Revenue Bonds, Series of 1976, for the purpose of providing funds for the construction and installation of major extensions and additions to the system. All bonds of this issue maturing on or after November 1, 1986 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time in part, in the inverse order at par plus accrued interest provided that U. S. Department of Agriculture, Rural Economic and Community Development is holder of the bonds.

By a resolution of the Commission, adopted on October 11, 1993, the District authorized and thereafter issued its \$1,764,000 Water System Revenue Bonds, Series of 1993 for the purpose of providing funds for the enlargement of the water treatment plant and installment of major extensions and additions to the system. All bonds of this issue maturing on or after November 1, 2004 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time, in part, in the inverse order at par plus accrued interest provided that U. S. Department of Agriculture, Rural Economic and Community Development is holder of the bonds.

BARKLEY LAKE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

9 LONG-TERM DEBT (continued)

By a resolution of the Commission, adopted on April 11, 2005, the District authorized and thereafter issued its \$1,185,000 Water System Revenue Bonds, Series of 2005, for the purpose of providing funds for the construction and installation of major extensions, additions and improvements to the system. All bonds of this issue maturing on or after November 1, 2016 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time in part, in the inverse order at par plus accrued interest provided that U. S. Department of Agriculture, Rural Economic and Community Development is holder of the bonds.

On March 29, 2008, the Barkley Lake Water District issued revenue bonds of \$3,060,000 with a average interest rate of 3.89% to:

- 1) Refund existing revenue bonds with an interest rate of 4.5% and a par value of \$1,740,000
- 2) Construct an elevated water storage tank.

The current refunding met the requirement of an in-substance debt defeasance and the revenue bonds were removed from the District's financial statements. As a result of the current refunding, the District reduced its total debt service requirements, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$86,532.

By a resolution of the Commission, adopted in 2010, the District authorized and thereafter issued its \$1,837,000 Water System Revenue Bonds, Series of 2010B, for the purpose of providing funds for the construction and installation of major extensions, additions and improvements to the system. All bonds of this issue maturing on or after November 1, 2019 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time in part, in the inverse order at par plus accrued interest provided that U. S. Department of Agriculture, Rural Economic and Community Development is holder of the bonds.

By a resolution of the Commission, on November 1, 2011, the District authorized a \$4,002,000 Bond Anticipation note through Kentucky Rural Water Finance Corporation, Interim Finance Program. The interim financing was for Utility plant improvements and will be secured through a bond issuance in the first quarter of 2012. The interim financing carries an interest rate of 2.5% payable on the first day of May and November. Bonds will be issued to finance the project in 2012, therefore no schedule of maturities is available.

All the Revenue Bonds are payable solely from, and secured by, a first pledge of the water revenues. So long as any of the bonds are outstanding and unpaid, the District shall continuously be maintained and operated in good condition. Rates and charges for services rendered will be imposed and collected so that gross revenues will be sufficient at all times, to provide for the payment of the operation and maintenance of the water plant, and to maintain the Depreciation and Sinking Funds described in Notes 4 and 5.

If there is any default in the payment of the principal or interest on any of the outstanding bonds, and suit is filed by a holder of said bond, any court having jurisdiction may appoint a receiver to administer the District with the power to charge and collect rates. These collected rates shall be sufficient to provide for the payment of the outstanding bonds, and the operating and maintenance expenses. The income and revenues shall be in conformity with the bond resolution, and the provisions of the applicable laws of Kentucky.

The plant may be sold, or otherwise disposed of only as a whole or substantially as a whole and then only if the proceeds to be realized therefore, together with any monies in the Sinking Fund are sufficient fully to redeem at the then current redemption prices all outstanding bonds and other obligations payable from the net revenues of the District. The bond covenants require that the rates for all utility services rendered by the District must be reasonable.

BARKLEY LAKE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

9 LONG-TERM DEBT (continued)

The District must maintain adequate public liability insurance including fire, windstorm, and hazards covered by a standard extended coverage policy. The net revenues of the District will be equal to 120% of the maximum annual principal, interest and Sinking Fund requirements of all outstanding bonds. Net revenues are defined to be gross revenues less current expenses of the system. Current expenses includes all reasonable and necessary costs of operating, repairing, maintaining, and insuring the System, but shall exclude any allowance for depreciation, payments into the Depreciation Fund for extensions, improvements and extraordinary repairs and maintenance, and payments into the Bond Fund and the Debt Service Reserve. The bond covenant also require the District be audited within 90 days of year-end. The requirements that the District maintain a 1.20 times debt coverage ratio was not met for the year ended December 31, 2011. The requirement that the District be audited within 90 days of year-end was met.

10 COMPENSATED ABSENCES

Sick leave is accumulated and will be paid to employees retiring on good terms from the District. Sick leave is forfeitable for employees terminating other than by retirement. Due to the uncertainty involved, no provision for unpaid sick leave has been reflected in the financial statements.

In accordance with the District's policy on vacation pay, the District has accrued a liability for pay, which has been earned but not taken by employees. The District is currently liable for compensated absences of \$18,461 at December 31, 2011.

11 RETIREMENT PLAN

County Employees Retirement System - The County Employees Retirement System (CERS) is a multiple employer cost sharing defined benefit public employees retirement system which covers substantially all regular full-time employees of each county and local government agency. The plan provides for retirement, disability, and death benefits to plan members. Copies of this report may be obtained from Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) months of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3 percent compounded annually through June 30, 1980, 6 percent through June 30, 1986, and 4 percent thereafter. The Board determines and may amend contribution rates, per Kentucky Revised Statute, if it is determined on the basis of an subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board.

CERS covered employees are required to contribute an amount equal to 5 percent of gross pay and 1 percent of gross pay if employed after September 1, 2008 and the employer was required to contribute an amount equal to 16.93 percent of gross pay for the six months ended June 30, 2011 and 18.96 percent for the six months ended December 31, 2011.

BARKLEY LAKE WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2011

11 RETIREMENT PLAN (continued)

Trend Information:

Schedules of Employer Contributions:

	Annual Required Contribution	Annual Contribution	Percentage Contributed
December 31, 2011	\$ 102,548	\$ 102,548	100%
December 31, 2010	\$ 94,422	\$ 94,422	100%
December 31, 2009	\$ 83,800	\$ 83,800	100%
December 31, 2008	\$ 116,805	\$ 116,805	100%

12 COMMITMENTS AND CONTINGENCIES

The District participates in federal and state assisted grant programs for construction of water lines. These programs are subject to review by grantors or their representatives. As of December 31, 2011 there were no material questioned or disallowed costs as a result of grant audits. As construction is completed, amounts due from state grant funds are recognized and are recorded as contributed capital.

13 COMMERCIAL INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, employee health and accident coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

14 INTEREST EXPENSE

The District incurred interest cost in 2011 of \$330,315. The entire amount has been recognized as a current operating expense.

**BARKLEY LAKE WATER DISTRICT
PO BOX 308
CADIZ, KY 42211**

FINANCIAL AND COMPLIANCE AUDIT

DECEMBER 31, 2011

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CALHOUN & COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Barkley Lake Water District
PO Box 308
Cadiz, Kentucky 42211

We have audited the accompanying financial statements of the business-type activities of Barkley Lake Water District as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of Barkley Lake Water District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Barkley Lake Water District as of December 31, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2012, on our consideration of Barkley Lake Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Commissioners
February 20, 2012
Page 2 of 2

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 – 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Barkley Lake Water District's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Hopkinsville, Kentucky
February 20, 2012

A handwritten signature in cursive script that reads "Calhoun & Company". The signature is written in black ink and is positioned to the right of the typed name.

**BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

The Barkley Lake Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2011. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

Financial Highlights

The District's 2011 operating revenues of \$2,403,372 increased 3% over the 2010 amount, while operating expenses for 2011 of \$2,116,750 increased 4% over 2010. Non-operating income for 2011 consisting of interest income was \$49,829, a 77% increase from 2010. The primary reason for this increase was the amount of grant income received in 2011 of \$1,419,146 as opposed to the lack of grant income received in 2010. These factors resulted in a 2011 increase in net assets of \$1,425,282.

The District's net assets, a measure of current financial resources, increased by \$1,425,282, resulting in a December 31, 2011 balance of \$7,606,134. The December 31, 2010 balance was \$6,180,852.

The District's unrestricted cash available for operating expenses was \$666,003 at December 31, 2011.

The District's investment in utility plant was \$15,101,367 net of depreciation at December 31, 2011.

Overview of Financial Statements

Barkley Lake Water District is a self-reporting proprietary fund. The District's basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows and notes to the financial statements. The District does not include financial information of any other entity, nor is it included in the financial information of any other entity.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Statement of net assets. The statement of net assets presents the financial position of the District. It presents information on the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Statement of revenues, expenses and changes in net assets. The statement of revenues, expenses and changes in net assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Statement of cash flows. The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year.

**BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11 - 22 of this report.

Overview of the District's Financial Position and Results of Operations

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$7,606,134 at December 31, 2011.

A portion of the District's net assets (\$3,886,366) reflects its investment in net plant capital assets, such as water tanks, buildings, equipment, and distribution systems, less depreciation and any related outstanding debt used to acquire those assets. The district uses these assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities.

The District's restricted net assets totaled \$3,353,273 at December 31, 2011 and consisted of cash restricted for debt service.

Unrestricted net assets totaled \$366,495 at December 31, 2011.

The District's operating income for the year was \$286,622, which included depreciation and amortization of \$472,687. Interest revenue was \$49,829, interest expense was \$330,315, and grant receipts were \$1,419,146 for a change in net assets for the year of \$1,425,282.

**BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

The District's overall financial position and operations for the past two years is summarized as follows:

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets	\$ 3,682,815	\$ 2,258,120
Capital Assets	15,101,367	10,760,007
Restricted and Other Assets	<u>980,073</u>	<u>993,704</u>
Total Assets	<u>19,764,255</u>	<u>14,011,831</u>
Liabilities		
Long-term Liabilities	11,325,085	7,502,431
Other Liabilities	<u>833,036</u>	<u>328,548</u>
Total Liabilities	<u>12,158,121</u>	<u>7,830,979</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	3,886,366	3,386,009
Restricted Net Assets	3,353,273	2,086,834
Unrestricted Net Assets	<u>366,495</u>	<u>708,009</u>
Total Net Assets	<u>\$ 7,606,134</u>	<u>\$ 6,180,852</u>
Revenues		
Operating Revenues	\$ 2,403,372	\$ 2,327,875
Non-Operating Revenues	49,829	-
Capital Contributions	<u>1,419,146</u>	<u>28,193</u>
Total Revenues	<u>3,872,347</u>	<u>2,356,068</u>
Expenses		
Operating Expenses	2,116,750	2,043,815
Non-Operating Expenses	<u>330,315</u>	<u>250,837</u>
Total Expenses	<u>2,447,065</u>	<u>2,294,652</u>
Change in Net Assets	1,425,282	61,416
Net Assets, Beginning of Year	<u>6,180,852</u>	<u>6,119,436</u>
Net Assets, Ending of Year	<u>\$ 7,606,134</u>	<u>\$ 6,180,852</u>

**BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Capital Assets

The District's activity investment in capital assets as of December 31, 2011 was as follows:

	Balance January 1, 2011	Additions (Deletions)	Balance December 31, 2011
Nondepreciable Assets			
Land	\$ 110,072	\$ -	\$ 110,072
Construction in Progress	2,073,721	3,321,361	5,395,082
Total Nondepreciable Assets	<u>2,183,793</u>	<u>3,321,361</u>	<u>5,505,154</u>
Depreciable Assets			
Buildings	3,901,572	-	3,901,572
Pumping Equipment	23,034	-	23,034
Transmission Lines	9,718,331	1,384,982	11,103,313
Meters	1,489,935	42,233	1,532,168
Plant Equipment	435,893	-	435,893
Office Equipment	91,122	8,216	99,338
Vehicles	244,466	43,623	288,089
Total Depreciable Assets	<u>15,904,353</u>	<u>1,479,054</u>	<u>17,383,407</u>
Total Capital Assets	<u>\$ 18,088,146</u>	<u>\$ 4,800,415</u>	<u>\$ 22,888,561</u>

During the year ended December 31, 2011, the district acquired additional assets of \$1,479,054. Depreciation expense was \$459,056.

The District had an increase in construction in progress of water system improvements of \$3,321,361. Other asset additions included meters, plant equipment and office equipment.

**BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Long-term Debt

Debt activity for the year ended December 31, 2011, was as follows:

	<u>Balance</u> <u>January 1, 2011</u>	<u>Additions</u> <u>(Payments)</u>	<u>Balance</u> <u>December 31, 2011</u>	<u>Current</u> <u>Maturities</u>
Bond Series 1976	\$ 99,000	\$ (17,000)	\$ 82,000	\$ 19,000
Bond Series 1993	1,412,000	(34,000)	1,378,000	36,000
Bond Series 2005	1,131,000	(15,000)	1,116,000	15,500
Bond Series 2008C	2,895,000	(95,000)	2,800,000	100,000
Bond Series 2010	1,837,000	-	1,837,000	23,000
Bond Anticipation Note	-	4,002,000	4,002,000	-
	<u>\$ 7,374,000</u>	<u>\$ 3,841,000</u>	<u>\$ 11,215,000</u>	<u>\$ 193,500</u>

Interest expense of \$330,315 was paid during the year ended December 31, 2011.

Request for Information

This financial report is designed to provide a general overview of the Barkley Lake Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Terry McNichols, Chairman, Barkley Lake Water District, P. O. Box 308, Cadiz, Kentucky 42211.

BARKLEY LAKE WATER DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUND
DECEMBER 31, 2011

Assets

Current Assets

Cash and Cash Equivalents	\$	666,003
Accounts Receivable		308,675
Other Receivables		6,266
Inventory		136,616
Prepaid Expenses		26,808
Restricted Cash		2,538,447
		<hr/>
Total Current Assets		3,682,815

Noncurrent Assets

Restricted Cash		814,826
		<hr/>
Total Restricted Cash		814,826

Capital Assets

Depreciable Capital Assets, Net of Depreciation		9,596,213
Non-depreciable Capital Assets		5,505,154
		<hr/>
Total Capital Assets		15,101,367

Other Assets

Utility Deposit		525
Deferred Loss of Current Debt Refunding		19,596
Bond Issue Costs		145,126
		<hr/>
Total Other Assets		165,247
		<hr/>
Total Noncurrent Assets		16,081,440
		<hr/>
Total Assets		19,764,255

Liabilities**Current Liabilities**

Current Maturities of Long-Term Debt	193,500
Accounts Payable	42,963
Construction Payables	476,948
Payroll Liabilities	31,496
Accrued Expenses	
Taxes	5,855
Interest	82,274
	<hr/>
Total Current Liabilities	833,036

Noncurrent Liabilities

Compensated Absence	18,461
Customers' Deposits	285,124
Bonds Payable	11,021,500
	<hr/>
Total Noncurrent Liabilities	11,325,085
	<hr/>
Total Liabilities	12,158,121

Net Assets

Invested in Capital Assets, Net of Related Debt	3,886,366
Restricted Net Assets	3,353,273
Unrestricted	366,495
	<hr/>
Total Net Assets	\$ 7,606,134

BARKLEY LAKE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

Operating Revenues

Charges for Services	\$	2,384,913
Miscellaneous Revenue		18,459
		2,403,372
Total Operating Revenues		2,403,372

Operating Expenses

Operating Expenses		1,594,906
Taxes		49,157
Depreciation and Amortization		472,687
		2,116,750
Total Operating Expenses		2,116,750
Operating Income (Loss)		286,622

Non-operating Revenues (Expenses)

Interest Revenue		49,829
Interest Expense		(330,315)
		(280,486)
Total Non-operating Revenues (Expenses)		(280,486)

Capital Contributions

Contributed Capital		1,419,146
		1,419,146
Total Capital Contributions		1,419,146
Change in Net Assets		1,425,282
Net Assets, Beginning of Year		6,180,852
Net Assets, End of Year	\$	7,606,134

**BARKLEY LAKE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Cash Flows from Operating Activities

Received from Customers	\$	2,436,400
Paid to Suppliers for Goods and Services		(723,803)
Paid to Employees		(939,181)
		773,416

Cash Flows from Capital and Related Financing Activities

Acquisition and Construction of Property, Plant and Equipment		(4,323,468)
Proceeds from Capital Grants		1,419,146
Principal Paid on Long-Term Debt		(161,000)
Proceeds from Issuance of Long-Term Debt		4,002,000
Interest Paid on Debt		(330,315)
		606,363

Cash Flows from Investing Activities

Interest Income		49,829
		49,829

Net Increase (Decrease) in Cash

1,429,608

Cash and Cash Equivalents, Beginning of Year

2,589,668

Cash and Cash Equivalents, End of Year

\$ 4,019,276

Cash Flows from Operating Activities

Operating Income (Loss)	\$	286,622
Adjustments - Operating Activities		
Depreciation and Amortization		472,687
(Increase) Decrease in		
Accounts Receivable		24,084
Other Receivable		(1,525)
Inventory		(17,044)
Prepaid Insurance		(602)
Increase (Decrease) in		
Accounts Payable		6,340
Accrued Interest		(3,713)
Payroll Liabilities		(7,587)
Compensated Absence		3,685
Tenant Deposits Payable		10,469
		773,416
Net Cash Provided (Used) by Operating Activities	\$	773,416

There were no non-cash investing, capital or financing activities for the year ended December 31, 2011.

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Summary of Significant Accounting Policies

a. Activity

The Barkley Lake Water District is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Cadiz, Kentucky and primarily serves the Trigg County, Kentucky area.

b. Principles Determining Scope of Reporting Entity

The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executive, a publicly elected official, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

c. Basis of Accounting

The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District follows all pronouncements of the Government Accounting Standards Board, and has elected to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989 which do not conflict with GASB pronouncements.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

d. Accounts Receivable

The direct write-off method was used for recording uncollectible accounts. No allowance for uncollectible accounts was deemed to be needed. The District grants credit to customers, substantially all of who are residents of Trigg County. The balance of accounts receivable at December 31, 2011 was \$308,675.

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Summary of Significant Accounting Policies, Continued

e. Materials and Supplies

Inventories consist of materials and supplies and are stated at cost which is determined by the first-in, first-out method. Inventory at December 31, 2011 totaled \$136,616.

f. Utility Plant

The utility plant is carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income during that period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenues, expenses and changes in net assets – proprietary fund.

Capital assets are depreciated over the following useful lives:

Buildings	10 - 50 Years	Pumping Equipment	5 - 10 Years
Transmission Lines	5 - 50 Years	Meters	5 - 10 Years
Plant Equipment	5 - 10 Years	Office Equipment	5 - 10 Years
Vehicles	5 Years		

g. Intangible Assets

Financing and bond issue costs are being amortized over the life of the debt on the straight-line basis. Bond issue costs at December 31, 2011 totaled \$145,126.

h. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimated revenues from unbilled receivables at year-end are reflected in these financial statements.

i. Taxes on Income

The Barkley Lake Water District is exempt from paying income taxes under Section 115 of the Internal Revenue Code.

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Summary of Significant Accounting Policies, Continued

j. Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Unrestricted and restricted cash are reflected in total cash and cash equivalents.

k. Revenue Recognition

Operating revenues are recognized in the period that water is supplied to participants and others. All other revenues are reflected in non-operating income when earned.

l. Use of Restricted / Unrestricted Net Assets

- When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the District's policy is to apply restricted assets first.

2. Bank Accounts

a. Unrestricted Cash

Current revenues are deposited daily in the Revenue Fund, which earns interest at the passbook rate. Disbursements from this fund are made into the following funds as required by the bond covenants and are more fully described in subsequent paragraphs and notes:

- (1) Operation and Maintenance Fund
- (2) Bond Sinking Fund and Reserve
- (3) Depreciation Fund

On or before the twentieth day of each month, there is to be withdrawn from the Revenue Fund and deposited to the Operation and Maintenance Fund, an amount sufficient to pay the current expenses of operating and maintaining the plant pursuant to the annual budget. This fund is reported on the balance sheet as cash for general use.

b. Restricted Cash

Customers deposits are maintained in a separate account as described in Note 3.

Separate and special bank accounts were established by the Water Revenue Bond Series dated May 1, 1969 and the Bond Series of 1976, 1993, 2005, 2008 and 2010. The bond covenants require additional sums to be deposited in the Bond Sinking Fund and Depreciation Fund as described in Notes 4 and 5.

Construction accounts related to current expansion have been established to account for project funding as described in Note 6.

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

3. Customers' Deposit Fund

A separate fund has been established by the District and is to be maintained as long as a liability exists to customers for meter deposits held by the District.

At December 31, 2011, the composition of the customer deposit fund is as follows:

Cash in Bank - Checking	\$ 56,322
Certificates of Deposit	<u>306,055</u>
 Total Customers' Deposit	 <u><u>\$ 362,377</u></u>

At December 31, 2011, the District's liability for customers' deposit was:

Meter Deposits	\$ 282,795
Interest Payable	4,163
Final Bill Payables	<u>(1,834)</u>
 Total Customers' Deposit Liability	 <u><u>\$ 285,124</u></u>

4. Bond Sinking Fund and Sinking Fund Reserve

The bond ordinance of 1969 established this fund solely for the purpose of paying the principal and interest on all bonds. The ordinance requires that the amount deposited equals one-sixth of the next succeeding interest installment, one-twelfth of the principal of all bonds maturing on the next November 1st, and 75% of all sums remaining in the Revenue Fund after making transfers for interest, principal, and operation and maintenance requirements to a maximum of \$325,101. Parity Bonds issued in Bond Series 1976, Bond Series 1993, and Bond Series 1999 are likewise governed by this provision.

The composition of the Bond Sinking and Reserve Funds is as follows:

Cash in Bank - Sinking Fund	\$ 90,917
Cash in Bank - System Refunding	49,127
Cash in Bank - Sinking Fund	105,618
Cash in Bank - Regions Refunding	57,984
Certificate of Deposit - Sinking Fund	<u>240,536</u>
 Total Bond Sinking and Reserve Funds	 <u><u>\$ 544,182</u></u>

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

5. Depreciation Fund

This fund was established by the bond ordinance of 1969. The ordinance requires Barkley Lake Water District to make monthly contributions to this fund after observing the priority of deposits into the Water System Bond and Interest Sinking Fund (Bond Sinking Fund and Reserve). The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. Under the bond ordinance, \$200,000 is required to be on deposit before monthly deposits may be discontinued. The bond ordinance of 1976 requires monthly deposits to be made until the balance is \$326,400. The Water System Revenue Bonds, Series 1993 requires deposits of \$965 per month in addition to the requirements of prior bond resolutions. The maximum required level of funding all bond resolutions is \$533,800. The Water System Revenue Bonds, Series 1999 requires the maintaining of a Depreciation Fund but did not modify the method or level of funding. As of December 31, 2011, the depreciation cash and certificates of deposit totaled \$1,138,597.

6. Construction Funds

Expansion projects currently in construction are funded through the construction accounts as detailed below. Initial funding was obtained through the 2008 bond issue.

Cash in Bank - Construction	\$	3,940
Cash in Bank - Regions Construction		70,535
Cash in Bank - Regions Construction		1,231,231
 Total Construction Funds	 \$	 <u><u>1,305,706</u></u>

7. Deposits and Investments

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 40. GASB 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due.

There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the District, includes disclosure of the following:

- Common deposit risks related to credit risk; and
- Deposit policies related to those risks.

**BARKLEY LAKE WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2011**

7. Deposits and Investments, Continued

Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments, or collateral from the bank in the event of bank failure.

The District does not have a policy addressing custodial credit risk.

The bond covenant requires all deposits to be insured by the Federal Deposit Insurance Corporation or secured by the pledge of direct obligations of the United States Government. The District met this covenant for the year ended December 31, 2011.

As of December 31, 2011, the carrying amount of the District's deposits was \$4,019,026 and the bank balance was \$4,034,980. The District addresses that risk by complying with the bond covenant as discussed in Note 2. As of December 31, 2011, the District's deposits were categorized as follows:

Insured by FDIC Coverage	\$ 750,000
Collateralized by Tennessee Government Pool	1,215,369
Uninsured and Collateralized with Securities Held by the Pledging Financial Institution in the District's Name	2,069,611
Total	\$ 4,034,980

The District's investments are comprised of Customer Deposits.

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

8. Capital Assets

Capital asset activity for the year ended December 31, 2011:

	Balance January 1, 2011	Additions	Eliminations	Balance December 31, 2011
Depreciable Assets				
Buildings - Water Plant	\$ 3,896,829	\$ -	\$ -	\$ 3,896,829
Buildings - General Plant	4,743	-	-	4,743
Pumping Equipment	23,034	-	-	23,034
Transmission Lines	9,718,331	1,384,982	-	11,103,313
Meters	1,489,935	42,233	-	1,532,168
Plant Equipment	435,893	-	-	435,893
Office Equipment	91,122	8,216	-	99,338
Vehicles	244,466	43,623	-	288,089
Total Depreciable Assets	15,904,353	1,479,054	-	17,383,407
Accumulated Depreciation				
Buildings - Water Plant	2,337,255	86,537	-	2,423,792
Buildings - General Plant	26	317	-	343
Pumping Equipment	23,034	-	-	23,034
Transmission Lines	3,323,267	249,197	-	3,572,464
Meters	1,079,024	79,717	-	1,158,741
Plant Equipment	294,766	18,358	-	313,124
Office Equipment	88,286	1,863	-	90,149
Vehicles	182,481	23,066	-	205,547
Total Accumulated Depreciation	7,328,139	459,055	-	7,787,194
Net Depreciable Assets	8,576,214	1,019,999	-	9,596,213
Non-Depreciable Assets				
Land	110,072	-	-	110,072
Construction in Progress	2,073,721	4,706,343	(1,384,982)	5,395,082
Total Non-Depreciable Assets	2,183,793	4,706,343	(1,384,982)	5,505,154
Net Capital Assets	\$ 10,760,007	\$ 5,726,342	\$ (1,384,982)	\$ 15,101,367

Depreciation charged to expense was \$459,056 at December 31, 2011.

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

9. Long-term Debt

Long-term bond issues consist of the following:

	Balance		Balance		Current
	January 1, 2011	Proceeds	Repayments	December 31, 2011	Amount Due
Revenue Bonds 1976	\$ 99,000	\$ -	\$ 17,000	\$ 82,000	\$ 19,000
Revenue Bonds 1993	1,412,000	-	34,000	1,378,000	36,000
Revenue Bonds 2005	1,131,000	-	15,000	1,116,000	15,500
Revenue Bonds 2008C	2,895,000	-	95,000	2,800,000	100,000
Revenue Bonds 2010	1,837,000	-	-	1,837,000	23,000
Bond Anticipation Note	-	4,002,000	-	4,002,000	-
	<u>\$ 7,374,000</u>	<u>\$ 4,002,000</u>	<u>\$ 161,000</u>	<u>\$ 11,215,000</u>	<u>\$ 193,500</u>

Maturities of long-term bonds are as follows:

Year	Principal	Interest
2012	\$ 193,500	\$ 436,401
2013	196,500	429,271
2014	257,000	421,825
2015	268,500	411,940
2016	252,000	401,566
2017 - 2021	1,436,500	1,847,892
2022 - 2026	1,771,000	1,528,892
2027 - 2031	1,630,500	1,173,366
2032 - 2036	1,525,500	848,615
2037 - 2041	1,253,000	582,316
2042 - 2046	1,286,000	345,316
2047 - 2051	1,145,000	118,115
Total	<u>\$ 11,215,000</u>	<u>\$ 8,545,515</u>

By a resolution of the Commission, adopted on July 8, 1976, the District authorized and thereafter issued its \$364,000 Water System Revenue Bonds, Series of 1976, for the purpose of providing funds for the construction and installation of major extensions and additions to the system. All bonds of this issue maturing on or after November 1, 1986 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time in part, in the inverse order at par plus accrued interest provided that U. S. Department of Agriculture, Rural Economic and Community Development is holder of the bonds. This bond issue has a final maturity date of October 2015 and carries an interest rate of 5.0%.

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

9. Long-term Debt, Continued

By a resolution of the Commission, adopted on October 11, 1993, the District authorized and thereafter issued its \$1,764,000 Water System Revenue Bonds, Series of 1993 for the purpose of providing funds for the enlargement of the water treatment plant and installment of major extensions and additions to the system. All bonds of this issue maturing on or after November 1, 2004 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time, in part, in the inverse order at par plus accrued interest provided that U. S. Department of Agriculture, Rural Economic and Community Development is holder of the bonds. This bond issue has a final maturity date of October 2033 and carries an interest rate of 4.5%.

By a resolution of the Commission, adopted on April 11, 2005, the District authorized and thereafter issued its \$1,185,000 Water System Revenue Bonds, Series of 2005, for the purpose of providing funds for the construction and installation of major extensions, additions and improvements to the system. All bonds of this issue maturing on or after November 1, 2016 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time in part, in the inverse order at par plus accrued interest provided that U. S. Department of Agriculture, Rural Economic and Community Development is holder of the bonds. This bond issue has a final maturity date of October 2044 and carries an interest rate of 4.125%.

On March 29, 2008, the Barkley Lake Water District issued revenue bonds of \$3,060,000 with a final maturity date of January 2037 and an average interest rate of 3.89% to:

- 1) Refund existing revenue bonds with an interest rate of 4.5% and a par value of \$1,740,000 and
- 2) Construction of an elevated water storage tank.

The current refunding met the requirement of an in-substance debt defeasance and the revenue bonds were removed from the District's financial statements. As a result of the current refunding, the District reduced its total debt service requirements, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$86,532.

By a resolution of the Commission, adopted in 2010, the District authorized and thereafter issued its \$1,837,000 Water System Revenue Bonds, Series of 2010B, for the purpose of providing funds for the construction and installation of major extensions, additions and improvements to the system. All bonds of this issue maturing on or after November 1, 2019 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time in part, in the inverse order at par plus accrued interest provided that U. S. Department of Agriculture, Rural Economic and Community Development is the holder of the bonds. This bond issue has a final maturity date of November 2049 and carries an interest rate of 3%.

By resolution of the Commission, on November 1, 2011, the District authorized a \$4,002,000 Bond Anticipation note through Kentucky Rural Water Finance Corporation, Interim Finance Program. The interim financing was for Utility plant improvements and will be secured through a bond issuance in the first quarter of 2012. The interim financing carries an interest rate of 2.5% payable on the first day of May and November.

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

9. Long-term Debt, Continued

All the Revenue Bonds are payable solely from, and secured by, a first pledge of the water revenues. So long as any of the bonds are outstanding and unpaid, the District shall continuously be maintained and operated in good condition. Rates and charges for services rendered will be imposed and collected so that gross revenues will be sufficient at all times, to provide for the payment of the operation and maintenance of the water plant, and to maintain the Depreciation and Sinking Funds described in Notes 4 and 5.

If there is any default in the payment of the principal or interest on any of the outstanding bonds, and suit is filed by a holder of said bond, any court having jurisdiction may appoint a receiver to administer the District with the power to charge and collect rates. These collected rates shall be sufficient to provide for the payment of the outstanding bonds, and the operating and maintenance expenses. The income and revenues shall be in conformity with the bond resolution, and the provisions of the applicable laws of Kentucky.

The plant may be sold, or otherwise disposed of only as a whole or substantially as a whole and then only if the proceeds to be realized therefore, together with any monies in the Sinking Fund are sufficient fully to redeem at the then current redemption prices all outstanding bonds and other obligations payable from the net revenues of the District. The bond covenants require that the rates for all utility services rendered by the District must be reasonable. The District must maintain adequate public liability insurance including fire, windstorm, and hazards covered by a standard extended coverage policy. The net revenues of the District will be equal to 120% of the maximum annual principal, interest and Sinking Fund requirements of all outstanding bonds. Net revenues are defined to be gross revenues less current expenses of the system. Current expenses includes all reasonable and necessary costs of operating, repairing, maintaining, and insuring the System, but shall exclude any allowance for depreciation, payments into the Depreciation Fund for extensions, improvements and extraordinary repairs and maintenance, and payments into the Bond Fund and the Debt Service Reserve. The bond covenant also requires the District be audited within 90 days of year-end. The requirements that the District maintain a 1.20 times debt coverage ratio was met for the year ended December 31, 2011. The requirement that the District be audited within 90 days of year-end was met.

10. Compensated Absences

Employees are entitled to certain compensated absences based on their length of employment. Sick leave is accumulated and will be paid to employees retiring on good terms from the District. Sick leave is forfeitable for employees terminating other than by retirement. Due to the uncertainty involved, no provision for unpaid sick leave has been reflected in the financial statements.

In accordance with the District's policy on vacation pay, the District has accrued a liability for pay, which has been earned but not taken by employees. The District is currently liable for compensated absences of \$18,461 at December 31, 2011.

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

11. Retirement Plan

The County Employees Retirement System (CERS) is a multiple employer cost sharing defined benefit public employees retirement system which covers substantially all regular full-time employees of each county and local government agencies. The plan provides for retirement, disability, and death benefits to plan members. Copies of this report may be obtained from Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) months of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3 percent compounded annually through June 30, 1980, 6 percent thereafter through June 30, 1986, and 4 percent thereafter. The Board determines and may amend contribution rates, per Kentucky Revised Statute, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board.

CERS covered employees are required to contribute an amount equal to 5 percent of gross pay and 1 percent of gross pay if employed after September 1, 2008 and the employer was required to contribute an amount equal to 16.93 percent of gross pay for the six months ended June 30, 2011 and 18.96 percent for the six months ended December 31, 2011.

Trend Information:

Schedules of Employer Contributions:

	<u>Annual Required Contribution</u>	<u>Annual Contribution</u>	<u>Percentage Contributed</u>
December 31, 2011	\$ 102,548	\$ 102,548	100%
December 31, 2010	94,422	94,422	100%
December 31, 2009	83,800	83,800	100%
December 31, 2008	116,805	116,805	100%

12. Leases

The District leases a postage meter from Pitney Bowes, Inc. at a rate of \$345 per quarter. The total lease expense for the year ended June 30, 2011 is \$1,380.

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

12. Leases, Continued

Future minimum payments for this operating lease are as follows:

Year Ended June 30,	
2012	\$ 1,380
2013	1,380
2014	1,380
2015	1,150
2016	-
	<u>\$ 5,290</u>

13. Commitments and Contingencies

The District participates in federal and state assisted grant programs for construction of water lines. These programs are subject to review by grantors or their representatives. As of December 31, 2011 there were no material questioned or disallowed costs as a result of grant audits. As construction is completed, amounts due from state grant funds are recognized and are recorded as contributed capital.

14. Commercial Insurance

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, employee health and accident coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

15. Interest Expense

The District incurred interest costs in 2011 of \$330,315. The entire amount has been recognized as a current non-operating expense.

16. Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through February 20, 2011, the date the financial statements were available to be issued.

**BARKLEY LAKE WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

<u>Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Passed-Through Rural Development Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 3,294,692
Water and Waste Disposal Systems for Rural Communities - ARRA	10.760	N/A	<u>454,700</u>
Total U.S. Department of Agriculture			<u>3,749,392</u>
Total Federal Awards Expenditures			<u>\$ 3,749,392</u>

The Schedule of Expenditures of Federal Awards includes the grant and loan activity of the District and is presented on the statutory basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.



CALHOUN & COMPANY, PLLC
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of Commissioners
Barkley Lake Water District
PO Box 308
Cadiz, Kentucky 42211

We have audited the financial statements of the business-type activities of Barkley Lake Water District as of and for the year ended December 31, 2011 and have issued our report thereon dated February 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Barkley Lake Water District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Barkley Lake Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Barkley Lake Water District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Barkley Lake Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

To the Board of Commissioners
February 20, 2012
Page 2 of 2

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Hopkinsville, Kentucky
February 20, 2012

A handwritten signature in cursive script that reads "Calhoun & Company". The signature is written in black ink and is positioned to the right of the date and location text.



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Commissioners
Barkley Lake Water District
PO Box 308
Cadiz, Kentucky 42211

Compliance

We have audited Barkley Lake Water District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Barkley Lake Water District's major federal programs for the year ended December 31, 2011. Barkley Lake Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Barkley Lake Water District's management. Our responsibility is to express an opinion on Barkley Lake Water District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Barkley Lake Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Barkley Lake Water District's compliance with those requirements.

In our opinion, Barkley Lake Water District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control over Compliance

Management of Barkley Lake Water District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Barkley Lake Water District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Barkley Lake Water District's internal control over compliance.

To the Board of Commissioners
February 20, 2012
Page 2 of 2

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliances does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Hopkinsville, Kentucky
February 20, 2012

A handwritten signature in cursive script that reads "Calhoun & Company". The signature is written in black ink and is positioned to the right of the date and location text.

**BARKLEY LAKE WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Section I – Summary of Auditor’s Results

Financial Statements

Type of Auditor’s Report Issued	Unqualified
Internal Control Over Financial Report: Material Weakness(es) Identified?	No
Significant Deficiency(ies) Identified That are not Considered to be Material Weaknesses?	None Reported
Noncompliance Material to Financial Statements Noted?	No

Federal Awards

Internal Control Over Major Programs: Material Weakness(es) Identified?	No
Significant Deficiency(ies) Identified That are not Considered to be Material Weaknesses?	None Reported
Type of Auditor’s Report Issued on Compliance for Major Programs:	Unqualified
Audit Findings Disclosed that are Required to be Reported in Accordance with Section 510(a) of OMB Circular A-133?	None Reported

Identification of Major Programs:

CFDA #10.760 – Water and Waste Disposal Systems for Rural Communities
CFDA #10.760 – Water and Waste Disposal Systems for Rural Communities – ARRA

Dollar Threshold Used to Distinguish Between Type A and Type B Programs:	\$300,000
Auditee Qualified as Low-Risk Auditee?	No

Section II – Financial Statement Findings

No Matters Were Reported.

Section III – Federal Award Findings and Questioned Costs

No Matters Were Reported.